

PHILIP MORRIS COMPANIES INC. INTER-OFFICE CORRESPONDENCE

1341 G STREET, N.W., SUITE 900, WASHINGTON, D.C., 20005

TO: John Tucker

DATE: June 18, 1993

FROM: Craig Fuller

SUBJECT: Budget Exercise

I have attached the product of several days effort based on our previous budget submission and discussion.

The budget revisions represent our best efforts at getting to targets we were asked to reach.

I think we need to look at the reductions in two ways. First, we have taken several cost savings initiatives to reduce expenditures which should provide about \$4 million in savings this year. We are recommending the elimination of four full-time positions and eleven part-time or temporary positions. In addition, we will freeze and not fill eight positions.

Reductions beyond those described above takes us into a second area where significant reductions in public activities would be required. While the attachment suggests the best ways the corporate affairs group can find to reach the desired targets, I cannot recommend that we take all the actions on the list unless and until we have a discussion about how we want Philip Morris viewed by some of its key audiences. The issue here is not whether or not what's left after the reductions is *a lot of money*. The issue is how much of a *change* will be forced over the final six months of this year.

What Philip Morris has come to represent to community organizations, cultural organizations and various advocacy and interest groups is a strong and steady partner. Every time we step away from one of our "partners" there is a price to be paid. This is not a very good year to pay such a price suddenly and without warning.

If it is decided that we are going to launch the reductions -- and, I clearly believe there should be some -- then I would argue that a contingency fund be established to deal with appeals from the community. I would recommend that one third of the "reduction" go into the contingency fund with "add-back" expenditures coming only after senior management reviews the appeals.

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As I said in my initial submission to you, the kind of changes that are envisioned to meet targets you've been asked to meet will fundamentally alter the way Philip Morris Companies Inc. is viewed by key constituencies. Our mission calls upon us to build the most successful consumer packaged goods company in the world. Indeed, we are thought of by many as a great global company. A portion of our success and our ability to project the company's greatness is based on our involvement in the community. I do not and cannot object to changing some of our relationships if resources dictate that we do so. I can only tell you that the transition needs to occur over a couple of years not a couple of months if we are to avoid serious consequences.

There is one additional area that needs to be considered. When Mike, Bill and I participated in a meeting with RJR months ago, it was decided that we would form and I would Chair for PM a joint Task Force to deal with tobacco issues -- specifically, ETS and the federal excise tax. The effort was launched immediately with the understanding that we would present a budget for the effort in the future. This budget is going to include significant expenditures for advertising and the start-up of a Smokers Alliance. However, we do not have the program developed sufficiently to provide you with numbers at this point.

We stand ready to work with you on this entire project as it moves forward.

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